

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

SB 1469 – HB 1735

April 6, 2016

SUMMARY OF ORIGINAL BILL: Designates the Governor's Table Restaurant at Henry Horton State Park as a "premier type tourist resort" for purposes of on-premises alcohol consumption.

FISCAL IMPACT OF ORIGINAL BILL:

NOT SIGNIFICANT

SUMMARY OF AMENDMENT (015312): Deletes all language of the original bill.

Authorizes a deluxe theater to sell alcohol for on-premises consumption. Adds the definition of a "deluxe theater" to Tenn. Code Ann. § 57-4-102 for such purpose. Establishes an annual license fee of \$925 for deluxe theaters.

Designates the Saltbox Inn in Putnam County as a "premier type tourist resort" for purposes of on-premises alcohol consumption.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

Increase State Revenue – \$300/One-Time/ABC Fund
\$2,000/Recurring/ABC Fund
\$8,200/Recurring/General Fund

Increase Local Revenue – \$7,000/Recurring/Permissive

Other Fiscal Impact – To the extent one deluxe theater begins operations in Tennessee, there will be a one-time increase in state revenue to ABC of \$300; a recurring increase in state revenue to ABC of \$900; a recurring increase in state revenue to the General Fund estimated to be \$8,200; and a permissive and recurring increase in local revenue estimated to be \$6,900.

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Assumptions for the Deluxe Theater:

- Fiscal Review Committee staff could not confirm the current existence of any deluxe theaters in Tennessee as defined by the bill.
- In the event one establishment as defined opens in Tennessee, there will be a one-time application fee of \$300 and a \$925 recurring fee payable to the Tennessee Alcoholic Beverage Commission (ABC).
- No additional personnel or resources will be required by the ABC.
- Local privilege tax is estimated to be \$1,000 annually. Any increase in local government expenditures for collecting local privilege taxes is estimated to be not significant.
- State and local sales taxes and a 15.0 percent liquor-by-the-drink (LBD) tax will be assessed on alcoholic beverage sales.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- Pursuant to Tenn. Code Ann. § 57-4-306(a), 50.0 percent of the 15.0 percent LBD tax is allocated to the state General Fund and 50.0 percent is distributed to the local government.
- Based on the interquartile average of 2014 LBD tax returns and assuming reasonable growth rates in LBD tax collections, the average taxable base per establishment is estimated to be approximately \$115,000 per year.
- Given current limitations on the availability of LBD sales data by venue type and size, it is assumed that there are three venue-type categories: smaller than average; average; and larger than average. For the purpose of estimating the tax base for entities authorized to conduct LBD sales pursuant to legislation, the following ratios relative to the average LBD taxable base for all sized entities are utilized: 50 percent for smaller than average; 100 percent for average; and 150 percent for larger than average.
- Given the smaller nature of this particular venue, the recurring increase in sales is estimated to be 50 percent of the average taxable base, or \$57,500 ($\$115,000 \times 50\%$) per year.
- To the extent one deluxe theater opens in Tennessee, the recurring increase in state revenue to the General Fund is estimated to be \$8,192 [$(\$57,500 \times 7.0\%) - (\$57,500 \times 7.0\% \times 3.617\%) + (\$57,500 \times 15.0\% \times 50.0\%)$].
- To the extent one deluxe theater opens in Tennessee, the permissive and recurring increase in local revenue is estimated to be \$6,896 [$\$1,000 + (\$57,500 \times 2.5\%) + (\$57,500 \times 7.0\% \times 3.617\%) + (\$57,500 \times 15.0\% \times 50.0\%)$].
- Any revenue collected from any state or local taxes imposed on manufacturers or wholesalers is estimated to be not significant.

Assumptions for the Saltbox Inn:

- There is an initial application fee of \$300 and a \$2,000 annual fee payable to the Tennessee Alcoholic Beverage Commission (ABC).
- No additional personnel or resources will be required by the ABC.

- Local privilege tax is estimated to be \$1,000 annually. Any increase in local government expenditures for collecting local privilege taxes is estimated to be not significant.
- State and local sales taxes and a 15.0 percent liquor-by-the-drink (LBD) tax will be assessed on alcoholic beverage sales.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate in Putnam County is 2.75 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617%.
- Pursuant to Tenn. Code Ann. § 57-4-306(a), 50.0 percent of the 15.0 percent LBD tax is allocated to the state General Fund and 50.0 percent is distributed to the local government.
- It is assumed that the establishment will begin selling alcohol in FY16-17.
- Based on the interquartile average of 2014 LBD tax returns and assuming reasonable growth rates in LBD tax collections, the average taxable base per establishment is estimated to be approximately \$115,000 per year.
- Given current limitations on the availability of LBD sales data by venue type and size, it is assumed that there are three venue-type categories: smaller than average; average; and larger than average. For the purpose of estimating the tax base for entities authorized to conduct LBD sales pursuant to legislation, the following ratios relative to the average LBD taxable base for all sized entities are utilized: 50 percent for smaller than average; 100 percent for average; and 150 percent for larger than average.
- Given the smaller nature of this particular venue, the recurring increase in sales is estimated to be 50 percent of the average taxable base, or \$57,500 (\$115,000 x 50%) per year.
- The recurring increase in state revenue to the General Fund is estimated to be \$8,192 $[(\$57,500 \times 7.0\%) - (\$57,500 \times 7.0\% \times 3.617\%) + (\$57,500 \times 15.0\% \times 50.0\%)]$.
- The recurring increase in local revenue is estimated to be \$7,039 $[\$1,000 + (\$57,500 \times 2.75\%) + (\$57,500 \times 7.0\% \times 3.617\%) + (\$57,500 \times 15.0\% \times 50.0\%)]$.
- Any revenue collected from any state or local taxes imposed on manufacturers or wholesalers is estimated to be not significant.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Krista M. Lee, Executive Director

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